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Approved by:

Robert Hoff
U.S. Embassy

Prepared by:

Ken Joseph

Report Highlights:

Argentine beef exports for 2007 are forecast at 680,000 tons, higher than the previous year (2006 exports have been affected by the imposition of export controls). If export controls continue in place, local exporters will not be able to fully take advantage of excellent market conditions. The Argentine Government (GOA) has implemented these controls with the stated aim of reducing inflation, through the increase of the domestic beef supply. Despite market controls, and a reduced slaughter, beef production in 2007 is projected to remain quite similar as a result of heavier average slaughter weights. In 2006, the GOA banned the slaughter of cattle below 280 kilos, a very popular category among local consumers.

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SECTION I. SITUATION AND OUTLOOK

Summary: Most sources do not foresee radical changes in the Argentine beef chain in the short-medium term despite the export controls and other measures taken by the Argentine Government (GOA) in 2006. It appears that prohibiting beef exports for over two months, putting controls on cattle and retail beef prices, and prohibiting the slaughter of cattle below 280 kilos, have not had the severe impact that some analysts had predicted.

Cow-calf operations in traditional areas are expected to slow down production due to a drop in the use of the "early weaning" technique. This could affect weaning ratios in the future. However, non-traditional production areas, especially in the northern part of the country, are expected to grow, as there has been significant investment and expansion. With regard to feeding operations, post expects most farms which produce cattle on good cropland to shift to the production of more profitable and predictable agricultural crops. Therefore, the feeding sector will continue to move to more marginal areas where improvement of pastures and management will be needed. Under these circumstances, the use of corn and other feeds is projected to expand.

Beef output in 2007 is expected to remain relatively unchanged and is forecast at 3.15 million tons. Every link of the beef chain has understood the importance that the government gives to stable retail beef prices. Domestic beef consumption is forecast to fall slightly, while beef exports are projected to rebound somewhat.

Trade: In the wake of the export ban and subsequent relaxation, Argentine beef exports for 2007 are projected at 680,000 metric tons, carcass weight equivalent (CWE), higher than in 2006 but 10 percent below the level achieved in 2005. Some analysts indicate that Argentina is capable of exporting close to 1 million tons but they assert that this export volume will not be attained due to the various export and supply controls carried out by the GOA.

In late 2005 and during 2006, the GOA established a number of measures to increase local supply with the stated goal of restraining domestic beef prices. Beef prices have a significant impact in the official calculation of the inflation rate. These measures included the suspension of export rebates, the increase of export taxes (from 5 to 15 percent), the creation of an official export register, and the ban on exports for 180 days which later on was partially relaxed twice (for more information, please read GAINS reports AR6006, AR6009, AR6022, AR6025).

While the GOA has achieved its goal of lowering retail beef price marginally in 2006, the cost incurred by cattlemen and beef exporters has been significant. Cattle prices, especially for export categories such as manufacturing cows and heavy steers, dropped dramatically during the export ban. Also, beef exporters could not honor their commitments and lost significant business during the prohibition. Contacts state that there is an implicit agreement to keep cattle prices under control (not higher than US\$0.78-0.82 per kilo of steer, live weight, suggested by the GOA), by which it would guarantee stable retail prices on at least the 6-11 most popular cuts (those which are measured every month to establish the consumer price index). Current cattle prices have some margin to rebound, but most players in the chain believe that if beef prices go up, the GOA will impose further control measures and exports will be negatively affected. Therefore, most contacts indicate that the sector will limit exportable supply if prices tend to increase significantly. Most contacts believe cattle prices will remain under control in 2007.

Local analysts expect Argentine FOB prices in 2007 to remain at a very high level. However, they indicate that prices could drop somewhat if Brazil regains fully export markets which it has lost due to multiple outbreaks of Foot-and-Mouth Disease (FMD).

Argentine beef exporters in the past few years have been focusing on expanding exports of high-priced premium cuts. In general terms, Brazil leads the market of manufacturing and thermoprocessed beef at very competitive prices, while Argentina has positioned itself as a supplier of high quality beef, especially to the European Union (E.U.) and the Russian Federation. With exports limited by the GOA, exporters are trying to ship products with the highest value possible. Local beef exporters indicate that there are great opportunities in the world market and that the shift will be quite fast. Argentina is known for its excellent beef quality as the result of the natural production based primarily on pastures, good sanitary status, temperate climate, appropriate breeds, and modern processing facilities.

Production: Beef output is expected to remain at levels similar to those of the past few years. Despite a reduction in cattle slaughter compared to 2005, the average weight per animal is expected to continue to increase, albeit moderately. In 2006, the average carcass weight primarily increased significantly as a result of the GOA's prohibition on slaughtering cattle below 280 kilos.

Contacts opine that the GOA will control exportable supplies. If retail beef prices do not increase, these contacts believe that shipments will be subject to fewer controls. However, when there is pressure on domestic prices, these contacts assert that the GOA will intervene in order to ensure that the local market is fully supplied.

The local export beef industry is working below capacity due to the export restrictions, and lower slaughter. Private sources indicate that investment in the beef-processing sector has been affected. In the past several years, most meat packers (both for the domestic as well as for the export market) invested significantly, improving capacity and sanitary conditions, many in order to be eligible to export. However, after the export ban and the uncertainty ushered in by this measure, the impetus to invest has lessened. Some contacts indicate that the current situation opens up good opportunities for the large companies to expand by buying other less competitive plants.

Local export processing plants are going through a difficult period since they are producing at 60-80 percent of their capacity. This situation is expected to continue throughout most of 2007. Some costs, especially energy, have increased significantly. However, cheaper cattle prices and higher export prices help to offset higher costs.

Retail prices of the most popular beef cuts in the domestic market are expected to remain unchanged (between US\$2.50-3.0 per kilo) in 2007. Cattle prices are also expected to remain quite flat in 2007 to guarantee stable retail prices. However, some analysts predict that heavy steers and cows, the two main export categories, could increase somewhat due to good returns in the export business. This could help meat packers keep retail prices stable.

The quality of the local beef is good and is expected to remain good. However, consumers will continue to accept somewhat larger cuts than what they were used to, as a result of the prohibition of marketing very light heifers and steers. Also export plants are expected to sell in the domestic market cuts which are not exported (primarily forequarters) of heavy steers (above 450 kilos).

Policy: For the past several years the GOA has maintained a weak peso-dollar exchange rate to foster exports. However, the inflation rate in the past few years has grown more than

what the local currency has lost in value, eroding, to some extent, the competitiveness of local exports. For 2007, private analysts estimate an inflation of about 11 percent and an exchange rate of US\$1=P\$3.

The GOA announced recently a cattle development program called "More Beef" with the objective of increasing production to meet future growing domestic and world demand. Some of the measures announced were already available, but the focus of the program is to increase cow-calf and feeding efficiency, and to modernize the domestic beef marketing and distribution. Most contacts, however, wonder if producers will invest or take risks in a business which is closely regulated by the government. However, all players indicate that it is a very positive sign that the GOA has re-established its dialogue with the cattle/beef sector.

The Argentine Beef Promotion Institute (ABPI), which is a privately owned entity financed by a check off program funded by cattlemen and slaughter plants, is focusing more on the domestic market than the external one. Because of the export ban, foreign promotions in 2006 have been limited, although there will be a significant Argentine presence at European trade shows in the fall of 2006. As a result of the dispute between the government and the cattle/beef chain on retail beef prices, the Institute has recently launched a campaign to show consumers what the industry is all about, and its importance in the local economy.

SECTION II. STATISTICAL TABLES

PSD Table

Country Commodity	Argentina Animal Numbers, Cattle (1000 HEAD)					
	2005 USDA Official [	Revised Estimate[1]	2006 USDA Official [	Estimate Estimate[1]	2007 USDA Official [	Forecast Estimate[1]
Market Year Begin	01/2005	01/2005	01/2006	01/2006	01/2007	01/2007
Total Cattle Beg. Stks	50167	50167	50166	50166	50965	50766
Dairy Cows Beg. Stks	2100	2100	2200	2200	0	2200
Beef Cows Beg. Stocks	21000	21000	21000	21000	0	20700
Production (Calf Crop)	15400	15400	15500	15000	0	14700
Intra EC Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	65567	65567	65666	65166	50965	65466
Intra EC Exports	0	0	0	0	0	0
Total Exports	1	1	1	0	0	0
TOTAL Exports	1	1	1	0	0	0
Cow Slaughter	5000	4900	5300	4700	0	4700
Calf Slaughter	1900	1900	1000	1000	0	900
Other Slaughter	7800	7900	7700	8000	0	8200
Total Slaughter	14700	14700	14000	13700	0	13800
Loss	700	700	700	700	0	700
Ending Inventories	50166	50166	50965	50766	0	50966
TOTAL DISTRIBUTION	65567	65567	65666	65166	0	65466

PSD Table

Country Commodity	Argentina Meat, Beef and Veal					
	(1000 MT CWE)(1000					
	2005	Revised	2006	Estimate	2007	Forecast
	USDA Official [	Estimate[1]	USDA Official [	Estimate[1]	USDA Official [	Estimate[1]
Market Year Begin	01/2005		01/2006		01/2007	
Slaughter (Reference)	14700	14700	14000	13700	0	13800
Beginning Stocks	0	0	0	0	0	0
Production	3200	3200	3100	3100	0	3150
Intra EC Imports	0	0	0	0	0	0
Total Imports	5	5	4	4	0	2
TOTAL Imports	5	5	4	4	0	2
TOTAL SUPPLY	3205	3205	3104	3104	0	3152
Intra EC Exports	0	0	0	0	0	0
Total Exports	759	759	500	500	0	680
TOTAL Exports	759	759	500	500	0	680
Human Dom. Consumpti	2446	2446	2604	2604	0	2472
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumptic	2446	2446	2604	2604	0	2472
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	3205	3205	3104	3104	0	3152

SECTION III. SUPPLY AND DEMAND, POLICY AND MARKETING

Production

After growing in the past few years, the cattle herd is not estimated to grow in 2007. Although post sets the total herd at nearly 51 million head, some analysts believe it is more likely to range between 52-54 million. There is no official estimate available.

The lower cattle slaughter projected for 2006 and 2007 is, primarily, the result of a strong drought suffered in 2003 which negatively affected pregnancy rates and the calf crop. However, beef output is forecast to remain unchanged, mainly because average cattle weights would be heavier after the restriction to slaughter cattle below 280 kilos imposed by the GOA in early 2006. However, total beef production will depend on the possibility of exporting beef and the rebound of cattle prices. If returns are good, this will encourage producers to add extra weight to their cattle. Until last year, the cow-calf and the feeding sectors had made great progress in production efficiency due to good profitability that made producers to increase investment and improve management. However, cattlemen indicate that in many cases, this trend has decelerated, especially in traditional cow-calf regions. Based on recent cattle breeding stock auctions, bulls sold quite well in the northern provinces where production has been expanded significantly in the past few years. Brangus and Braford are the most popular breeds in this area.

The areas of the country dedicated to cow-calf business are the center-east part of Buenos Aires province, Entre Rios and Corrientes province (in the east), La Pampa, and San Luis (in the west), and the northern part of Santa Fe, Santiago del Estero, Salta, Formosa and Chaco (in the north). Feeding operations are located primarily on the west of Buenos Aires province, east of La Pampa, in the center-south of Cordoba, Entre Rios and central Santa Fe. However, with the expansion of the feedlot business, there are many areas which concentrate production.

Comparing August 2006 to August 2005 returns in the cow-calf sector dropped to be almost break-even. In the past twelve months, the price of weaned calves and cull cows dropped, on average, 15 percent (due to uncertainty and the prohibition to export), and production costs increases (especially labor and pasture and feeding costs). On the side of feeding operations, returns increased in the past 12 months, primarily because the cost of replacement calves dropped significantly.

The wide and popular use of corn, especially with feeder cattle, is expected to remain stable or increase marginally. Corn prices will increasingly affect beef production in Argentina, where cattle production is year after year increasingly more dependent on corn. If corn prices continue to go up, and cattle prices remain flat, we will most likely see a reduction of its use at the ranch level, and no growth of its use at the feedlots. The feeding of corn to cattle has expanded significantly in the past five years. The main reasons are that production has moved to less productive marginal areas, corn prices have been low, there is a local differential price due to a 20 percent export tax, and the fact that producers using their own corn added significant value by turning it into beef. Moreover, after the 2002 devaluation, and despite some 3-5 million hectares of pastures lost to cropland, the cattle stock and beef production increased, primarily as a result of the massive use of corn and corn silage. Some private analysts indicate that almost 70-80 percent of the cattle in Argentina is finished (especially the last 100 kilos) with grain or silage. The use of grain, and especially feedlots, has shown itself to be an excellent tool during dry periods.

The feedlot industry is expected to remain stable or grow marginally in 2007. Private sources estimate that of the total slaughter, about 3 million head come from feedlots. There

are mainly two factors which affect the business: the price of feeder and fed cattle, and the price of corn. During 2006, the "professional" feedlots worked at record levels, but the smaller, farm-owned feedlots worked at a slower pace. The main business in the local feedlot industry was to feed very light calves (weighing 140 kilos) up to 240 kilos in 100 days. However, in late 2005, the GOA banned the slaughter of cattle below 260 kilo, and in early 2006 it increased the limit to 280 kilos. This situation made feedlots readjust and begin to buy heavier calves (closer to 160-200 kilos) and finish them at 300 kilos. More than 70 percent of the total output from the feedlots are heifers and light steers. Although they add the same amount of weight as the prior scheme, it takes somewhat of a longer time (110 days). Some feedlots are having a hard time adjusting the rations because the British-breed feeder cattle tend to deposit too much fat.

The availability and use of veterinary drugs in Argentina is good. The use of growth hormones is prohibited. Feedlot operators question this measure and opine that growth hormones could improve production efficiency, especially at a moment in which the country needs to produce more beef.

In the past several years, many cow calf operations have incorporated the method of "early calf weaning" at 2-4 month old and feeding calves with balanced feeds. By doing this, breeders have obtained better calf crop efficiency since cows have better body condition.

As result of the government's intervention in the cattle sector some producers limited or suspended the planting of new pastures (some local seed companies estimate a drop of 30-40 percent). In some cases, this land has been used for crop production.

In the past several years, there has been improvement in the management in cow-calf operations. However, the habit of many commercial breeders to provide the worst pastures to the cows is still widespread. The lack of good feeding and thus corporal condition, plus some sanitary weaknesses, need to be changed to increase the calf crop. The recently announced official cattle program focuses on improving these aspects in small and medium operations. The GOA announced that it will provide US\$280 million in non-reimbursable support over a five-year period. The program will cover technical assistance, pasture improvement, sanitary and reproductive programs, genetic improvement and below market-rate credits. The GOA's goal is that by 2010 there will be 1.4 million more weaned calves, cattle slaughter will expand by 1.5 million head, beef output will grow 20 percent, and the cattle herd will reach 62 million head. Players in the sector think that these results are optimistic in light of the GOA's price and export controls.

Several of Argentina's most important cow-calf regions are suffering a 4-6 month long drought. This will affect somewhat the pregnancy rate, and thus the 2008 calf crop.

There are approximately 400 slaughter plants in the country which are inspected by the GOA. Of those, 100 are eligible to export to the Russian Federation, 50 to the E.U. and 14 to the U.S. In most cases, they are financially sound. The industry is very atomized. The meat packer, which buys the most cattle, does not account for more than 4-5 percent of the total. There is very little vertical integration in the local cattle/beef sector. However, the large export plants are beginning to develop some programs to work more closely with producers to improve quality and efficiency.

Beef continues to be, by far, the most important and preferred meat produced in the country. Although the poultry, dairy and the pork industries continue to expand, there will be no problem in the supply of feed, since Argentina is a major grain and oilseed exporter. Domestic grain demand has expanded significantly in the past few years, but there is still much productive capacity to supply a growing local livestock sector.

Poultry production has expanded rapidly to meet a growing domestic market, and in the past couple of years, its growth has been primarily focused on the export market. A local company formed by several investors, of which some come from the agricultural sector, has recently started to build a large poultry processor in the province of Cordoba, and its main focus will be the export market. Pork production is growing but at a slower pace. There are some new investments which are focused on the domestic market, since Argentina still needs to import large amounts of pork. Contact believe that, since the GOA has put a price ceiling on beef, which is currently very affordable, this fact inhibits increases in poultry and pork production. If beef prices would increase, then pork and poultry prices would be more profitable, which would spur further production.

Consumption

Argentine domestic beef consumption for 2007 is projected at 2.47 million tons, slightly lower than in 2006. Argentines will continue to be the world's largest consumers of beef, at about 63 kilos per capita. The strong consumer preference for beef, and the GOA's commitment to maintain retail beef prices at accessible prices will guarantee a high consumption level. If cattle and beef prices were set purely by the market, the strong export demand would take a significant volume from the domestic market, which in 2007 is expected to represent 80 percent of the total output.

The following are some interesting data extracted from a study published in 2005 by the Argentine Beef Promotion Institute which describes some preferences and habits of local consumers: 46 percent of the consumers eat beef 5-7 days a week; beef is eaten more at lunch time than at dinner; the most popular ways of eating beef is breaded, steaks, and barbeque; the most popular ways of preparation are barbeque, grilled, oven, casserole, or fried; and 94 percent of beef is consumed with a side dish, of which salads and vegetables rank first.

Male feeder cattle are selling at US\$0.87 per kilo (females sell for US\$0.05 per kilo less). Bred heifers are selling at US\$350 per unit, while new cows sell for a little less. At the Mercado de Liniers cattle concentrating market fed steers are selling at an average US\$0.76 per kilo, light fed steers and heifers are selling at US\$0.81 per kilo and fed cows sell at US\$0.45-0.50 per kilo. The current price of beef carcasses is US\$1.36 per kilo for heavy and light steers, and also for fed heifers. The retail price of beef in a butchery located in a middle-income neighborhood is about US\$4 per kilo for loin, US\$2.50 per kilo for short ribs, and US\$2.40 per kilo for ground beef. Whole broilers are selling for US\$1.20 per kilo and fish fillets for US\$3.50 per kilo. Although variations are expected, they will not be significant.

The local poultry industry has become very efficient in the past decade. It has lowered production costs significantly and has become very competitive. During this period of time, beef prices have increased significantly, leaving much room for growth for the poultry sector. Per capita chicken consumption 15 years ago was about 10 kilos, while in 2006 it is expected to reach 27 kilos. Pork consumption is still very low at 6-7 kilos, of which most is consumed as processed products.

Stocks

Argentina does not usually operate with beef stocks, apart from the normal production of 1-3 days. However, during the export ban, many export meat packers continued to manufacture and process product taking advantage of low cattle prices, with the expectation that the ban would be lifted soon. In June, when the GOA decided to relax the ban and permit some exports, there were approximately 15,000-20,000 tons of beef and by-product stocked in the meat plants ready to be shipped. This stock is reported to have been drawn down.

Trade

Argentine beef exports for 2007 are forecast at 680,000 tons. Although there is much uncertainty given official export controls, depending on the development of retail beef prices, most contacts believe exports will range between 600,000 and 750,000 tons. There are some analysts who indicate that, if exports were influenced totally by market forces, Argentina's volume would be closer to 1 million tons.

Local beef traders expect Argentine FOB prices for 2007 to remain strong. However, the Brazil's regaining access to different markets could have an impact on prices. Contacts state, however, that the strength of the Real (Brazil's currency) and the recent increase in cattle prices could soften the impact of Brazil's potential competition.

Argentine FOB prices in the first seven months of 2006 (compared to the same period of 2005) increased significantly, and have been the best in the past several decades. Following are some examples (values in US\$ per ton):

	2006	2005	%
Fresh Beef			
* Russian Fed.	2,101	1,763	19
* Germany	6,821	5,274	29
* Israel	2,546	2,002	27
Hilton Quota			
* Germany	9,021	7,564	19
* Italy	9,665	8,590	13
* Netherlands	8,424	6,824	23
Thermoprocessed			
* U.S.	3,238	2,786	16
* U.K.	2,563	2,275	13
* Italy	4,447	3,753	18

The Russian Federation is expected to continue to be the largest market for Argentine beef. FOB prices for this market are extremely good. In early 2006, the Russian government authorized 16 Argentine plants to ship beef for the retail market. Most of these exporters are focusing on this business which promises to be very attractive, with large volumes and good values (prices receive roughly a US\$200 per ton premium). Although most of the beef is exported frozen, some shipments of chilled high value cuts are air freighted. The Russian market also demands large volumes of beef (especially trimmings and forequarter cuts) for the processing industry. This market takes a wide variety of boneless cuts, primarily from steers and cows.

The European Union is also expected to be a very important market for Argentine beef in 2007. Local exporters will continue to ship "commodity-type" products and will try to continue to expand niche markets for high quality beef. Germany will continue to be the primary destination for the 28,000-ton Hilton Quota (mostly rump and loin and strip loin), which is currently paying roughly US\$10,000 per ton. Italy, Spain and Portugal are markets which are expected to increase their purchases of high quality chilled cuts.

Chile, although it has been an erratic market due to its strict enforcement of sanitary requirements, is expected to become one of the major destinations in 2007. The neighboring country, after the last foot and mouth disease outbreak occurred in Corrientes province in February 2006, is expected to reopen its market in September 2006. Contacts indicate that Chileans could take up to 50,000 tons of Argentine beef. However, exporters do not see much expansion because it will be hard to compete with Paraguay. Moreover, with limited exports, companies will rather export to markets which pay the highest prices. Chile purchases a wide variety of cuts, primarily of light, lean cattle.

The United States is forecast to remain a very important market for thermoprocessed beef in 2007. In fact it is by far the number one market for thermoprocessed beef. The demand in 2007 is projected at about 20,000-25,000 tons, product weight. Although exports during April-June 2006 were lower on account of the export ban, in July they recovered to normal levels, and most contacts indicate that the total volume for 2006 will be quite similar to last year's. Cooked frozen beef (primarily IQF) is by far the most important product purchased by the U.S., followed by corned beef, and cooked beef. Local traders expect prices for this market to increase somewhat due to the world's strong beef prices.

Exports to Israel are also expected to remain firm. Israel normally imports between 20,000-30,000 tons of Argentine Kosher boneless beef, primarily forequarter cuts.

Venezuela has a bilateral agreement by which it buys approximately 8,000 tons of Argentine beef a year, and Morocco has a quota of about 4,000 tons. Venezuela buys all sorts of cuts, while Morocco buys almost exclusively forequarter cuts.

With export limitations during 2007, most contacts believe that exports to lower-price markets will diminish noticeably. Exporters will ship less, but will try to increase the value per unit, by exporting higher quality products to markets which pay better prices.

Marketing

Fed cattle are primarily sold from the ranch directly to the meatpacking house. Under this system, there are many different possibilities of intermediaries. Approximately 25 percent of the cattle sold are auctioned through cattle concentrating markets (there are only three in the country) and small auction markets mostly in smaller towns.

Cattle are slaughtered in any of the more than 400 plants distributed along the country. Santa Fe and Buenos Aires province concentrate the largest number of plants. The resulting carcasses are then further processed in the case of beef exporters, some large supermarkets, and institutional or industrial clients, or handed as is to the owners of the cattle who are typically beef wholesalers. Butchers normally receive half carcasses at their stores and then debone and prepare them for retail sale.

There are some private estimates which indicate that about 30 percent of the beef is sold through supermarkets, 15-20 percent goes to the hotel, restaurant and institutional sector and the balance is sold through small independent butcheries. The more affluent consumers

tend to buy in large supermarkets, where one can find a butchery, beef on a tray, and vacuum-packed beef (normally branded).

Based on the study published in 2005 by the Argentine Beef Promotion Institute, most Argentines buy beef between 1 to 4 times a week. Beef from light steers and light heifers is the preferred. The favorite way of buying is through a butcher and personal selection of the cuts. A small proportion buys the beef on trays and just 2 percent buy vacuum-packed beef. In almost all cases, women are the purchaser and preparer of the beef.

The recently announced official program "More Beef" includes several measures directed to cattle and beef marketing: a) it establishes the modernization of the identification system and cattle movement (all calves born in 2006 will have to be identified), b) it will create an official cattle price system taking into account daily transactions in cattle auctions and direct sales; c) it mentions the importance of a cattle's future market to reduce price risks which should operate under private hands; d) an electronic and virtual cattle auction market will be in place in the next three years; e) electronic control on the number of cattle and its weight when entering the slaughter plant will be established, and f) there will be provision of low-rate financing to domestic meat packing houses to invest in deboning and cold chambers to go from a half carcass distribution to quarters.